Loans though the Enterprise Finance Guarantee Scheme

So you need funding for growth and you have decided to approach a bank. Acquiring bank funding is not easy for early stage businesses as the bank will want capital, assets or other collateral as security. Without funding, businesses are typically unable to build the capital required to secure a loan and hence they are trapped in a classic ‘Catch 22’ situation.

The good news is that the Government Enterprise Finance Guarantee (EFG) Scheme addresses this problem by effectively underwriting a portion of your loan, providing you are a qualifying business. The EFG replaces old Small Firms Loan Guarantee (SFLG) Scheme and is bigger and better, but it is a response to the credit crunch, and so is available only for a limited period.

What does it do?

The main features and criteria of the scheme are:

- A guarantee to the lender covering 75 per cent of your loan
- You pay a charge of 2% per annum (payable in quarterly instalments) on your loan to the department of Trade and Industry
- Your loan must be between £1,000 (some banks raise the minimum amount you must borrow e.g. HSBC will require a £10,000 minimum for a company and £25,000 for a sole trader/partnership) and £1 million
- The repayment term on your loan must be between three months to ten years
- You must be a UK business with an annual turnover of less than £25 million
- UK companies, partnerships and sole traders all qualify

How does it work?

In contrast to the old SFLG, the EFG is also more flexible and it is possible to convert existing overdrafts into loans or restructure other borrowing (however this depends on the policies of the individual lender) and still benefit from the scheme.

The EFG is only available from certain commercial partners (listed below) who decide whether you qualify. It is important to note that the EFG is only available if you would have got the loan based on all the banks normal tests, but you fail for the sole reason that you lack the required security. So if the bank does not think you will be able to repay the loan then the EFG will not be available.

The £1.3bn scheme is now available up to 31st March 2011, and a replacement scheme may be available thereafter.

You should be aware that the scheme only covers 75% of the loan so the bank will still be after security for the remaining 25%. As a result the bank may well require additional collateral or a personal guarantee from you and your fellow directors/partners, if any.

You should also note that your obligation to repay the entire loan is not altered by the EFG. You still need to pay it all back plus the interest.
Current Approved Lenders

- Airdrie Savings Bank
- Alliance and Leicester Commercial Bank
- Bank of Baroda
- Bank of Ireland (NI only)
- Barclays
- Business Enterprise Fund
- Business Finance Solutions
- Clydesdale Bank/Yorkshire Bank
- The Co-operative Bank
- Donbac Finance Ltd
- DSL Business Finance
- First Trust
- Foundation East Ltd
- GLE oneLondon
- HSBC
- Lloyds Banking Group (LloydsTSB, Halifax, Bank of Scotland)
- NEL Fund Managers
- Northern Bank (NI only)
- The Royal Bank of Scotland/Natwest
- State Securities
- South West Investment Group
- Triodos Bank
- UK Steel Enterprises
- Ulster Bank (NI Only)
- Venture Finance
- Whiteaway Laidlaw Bank

How you I apply?

The schemes are administered by the banks, so just contact one of the banks above. But do remember to shop around, the EFG just provides the bank with the capital it needs to offer you a loan, as ever, some banks will have better terms than others as to interest charged and whether they will lend to you at all.

A business minded lawyer with an MBA from Oxford University, Jaan Larner is a corporate and commercial lawyer with a particular interest in entrepreneurial activity. He advises clients on their corporate structures as well as their ongoing day to day commercial activity.

E: jaan.larner@keystonelaw.co.uk

Disclaimer

We have written these materials to help you, but no article can address all the issues. The benefit of using an experienced lawyer is that they ask the right questions and build the solution around you.
Please therefore note that these materials only provide you with general information and should not be regarded as a substitute for taking legal advice.

Would you like to know more?

Keystone is a corporate law firm that has grown rapidly since 2002 when it was set-up to service the SME community. It is a full-service law firm with over 100 partner level solicitors and turnover in excess of £10 million. The firm has a unique structure whereby a central London office supports its solicitors who in turn work from their own satellite offices. Overhead savings are passed onto the firm’s clients who benefit from a very personalised service.

If you would like to know more, or for a competitive quote please call 020 7152 6550 or email enquiries@keystonelaw.co.uk.